


Government of the District of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: November 19, 2010

SUBJECT: Fiscal Impact Statement – “West End Parcels Development Omnibus Act of 2010”

REFERENCE: Bill 18-1076

Conclusion

Funds are not sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed bill. The exemptions from real property tax and deed and recordation tax would reduce revenues by approximately \$2.1 million during the financial plan period. In addition, the proposal to deposit deed and recordation taxes in a separate maintenance fund would divert over \$8.5 million from the General Fund over a twenty year period. The maintenance fund has no sunset date, so the diversion of taxes from the General Fund would grow beyond \$8.5 million over the life of the fund.

Background

In June 2010, the Council passed the West End Parcels Disposition Approval Resolution of 2010¹ (Resolution), which authorized the District to dispose of District-owned properties, including Lots 836 and 837 in Square 37 and Lot 822 in Square 50. The Mayor intends to sell the air rights above the aforementioned properties to Eastbanc-W.D.C. Partners, LLC (Eastbanc), less the air rights necessary to construct a new West End Library (Library) and West End Fire Station (Fire Station).

According to the Land Disposition Agreement (LDA) negotiated between the District and Eastbanc, the two District-owned parcels on Square 37 would be combined with an adjacent parcel (Square 37, Lot 855) currently owned by Eastbanc to build a single mixed-use building containing the

¹ Enacted July 13, 2010 (DC R 18-553; 57 DCR 7623)

Library (20,000 GSF) and retail (9,600 GSF) on the ground floor, and approximately 150 units of for-sale residential condominiums (224,000 GSF) above. Eastbanc would redevelop the District-owned parcel on Square 50 to include the Fire Station and approximately 52 units of affordable rental housing (51,000 GSF) for individuals earning 60 percent or less of the Area Median Income.

On June 14, 2010, the Office of the Chief Financial Officer (OCFO) issued a fiscal impact statement (FIS) on the Resolution stating that funds were sufficient in the proposed FY 2011 through FY 2014 budget and financial plan. However, the FIS cautioned that, according to the LDA, the ability for the project to move forward would be dependent upon Council approval of separate legislation providing Eastbanc with tax relief and an additional subsidy to build the affordable housing units.

The proposed bill would exempt the development on Lots 836, 837 and 855 in Square 37 and Lot 822 in Square 50 (Property) from Deed Transfer and Recordation Taxes until the initial transfers of the properties from the District to Eastbanc are complete. The legislation also exempts the Property from real property taxes during the construction period. Based on the construction schedule provided by Eastbanc, the exemption from Deed Transfer and Recordation Taxes would result in approximately \$1.45 million in lost revenue, while the real property tax exemption would result in approximately \$656,000 in lost revenue to the General Fund during the financial plan period.

The legislation would also establish a non-lapsing maintenance fund (Maintenance Fund) to be used to pay the expenses related to supplemental maintenance for the Library and Fire Station. Eighty-five percent of the Deed Transfer and Recordation Taxes attributable to the condo building constructed on Lots 836, 837 and 855 in Square 37 would be deposited into the Fund. The condo building is not expected to be completed until FY 2015. As a result, this provision of the bill does not impact the current budget and financial plan. However, it would result in a transfer of funds from the General Fund to the Maintenance Fund throughout the life of the project. Based on financial projections provided by Eastbanc, the OCFO estimates that more than \$8.5 million in Deed Transfer and Recordation Taxes would be diverted from the General Fund to the Maintenance Fund in the twenty year period beginning in FY 2015. Since the legislation does not contain any sunset date for the Fund, this amount would continue to grow over the life of the Maintenance Fund.

The proposed bill would authorize the District of Columbia Board of Library Trustees and the District of Columbia Fire Chief to contract with Eastbanc for the design, development and construction of the new Library and Fire Station. In addition, the bill would exempt the procurements related to the Library and Fire Station from the Procurement Practices Act of 1985.

The legislation does not address the requirement for additional subsidy for the affordable housing component.

Financial Plan Impact

Funds are not sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed bill. The exemptions from real property tax and deed and recordation tax would reduce revenues by approximately \$2.1 million during the financial plan period. In addition, the proposal to deposit deed and recordation taxes in a separate maintenance fund would divert over \$8.5 million from the General Fund over a twenty year period, beginning in FY 2015. The maintenance fund has no sunset date, so the diversion of taxes from the General Fund would grow beyond \$8.5 million over the life of the fund.

Estimated Fiscal Impact of West End Parcels Development Omnibus Act of 2010 FY 2011 through FY 2014					
	FY 2011	FY 2012	FY 2013	FY 2014	4 Year Total
Transfer & Record Tax	\$0	\$1,448,712	\$0	\$0	\$1,448,712
Real Property Tax	\$0	\$60,062	\$245,772	\$350,258	\$656,092
Total	\$0	\$1,508,774	\$245,772	\$350,258	\$2,104,805

Estimated Tax Diversion from General Fund of West End Parcels Development Omnibus Act of 2010 FY 2015 through FY 2034						
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	20 Year Total
Transfer & Record Tax	\$2,060,648	\$1,310,717	\$1,158,271	\$0	\$199,214	
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	
Transfer & Record Tax	\$205,190	\$211,346	\$217,686	\$224,217	\$230,943	
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
Transfer & Record Tax	\$237,872	\$245,008	\$252,358	\$259,929	\$267,727	
	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	
Transfer & Record Tax	\$275,758	\$284,031	\$292,552	\$301,329	\$310,368	\$8,545,163